RSC
Republican Study Committee

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Legislative Bulletin…………..…………………………June 14, 2001

Contents:

H.R. 1088 – Investor and Capital Markets Fee Relief Act (Fossella)

Order of Business: The bill is scheduled to be considered on Thursday, June 14th, under a modified closed rule.

Summary Based on Oxley Amendment Made in Order as Base Text Under the Rule

Summary:

FEE REDUCTIONS: H.R. 1088 would reduce the fees collected by the Securities and Exchange Commission (SEC) for the purpose of processing registrations, mergers, and transactions. Under current law fees are recorded as both offsetting collections (i.e. offsetting the cost of operating the SEC) and governmental receipts (revenue). Currently, SEC fees bring in more revenue than what is required to operate the Commission. It is estimated that SEC fees will bring in approximately $14 billion in general revenue over the next ten years. H.R. 1088 proposes to move to a system where fees are based on actual costs and eliminate the excessive collections, which are credited to general revenue. This is achieved by immediately reducing current SEC fees and then by setting targets for fee collections for Fiscal Years 2002 through 2011. The SEC would then adjust its fees annually and with a mid-year adjustment in order to meet the target level of collections. The bill does not remove the SEC from the appropriations process. Congress will still be required to provide annual appropriations.

It is estimated that the bill would reduce transaction fees by over 50% from 2002 through 2006. Transaction fees were already scheduled under current law to be reduced in 2007. It is further estimated that the bill would reduce registration fees by 47% from 2002 through 2006. (NOTE: The bill reported from Committee proposed a greater reduction in transaction fees and a smaller reduction in user fees. The levels above reflect the levels proposed in the Oxley Amendment as calculated vs. the CBO current baseline.)

PAY PARITY: H.R. 1088 proposes to remove SEC employees from the current civil service pay limitations and authorizes pay that is commensurate with other bank regulatory agencies. (Most often a comparison is made to the Federal Reserve, but it is important to note that the Federal Reserve operates an entirely separate "civil service" system, including its own retirement system.) The bill explicitly states that an employee represented by a labor union may not have his salary reduced as a result of this provision. While the bill describes the pay parity provision as a "demonstration project," there is no termination for this project and therefore it will probably be viewed as a permanent statutory change. The section does require the development of a plan that must be filed with the relevant Congressional Committees before the SEC can begin implementation.

STUDIES: The bill requires the following studies:

1. SEC study on the impact of the proposed fee reduction on investors (are the savings passed on to investors?), and
2. GAO study on converting the SEC into a self-funded commission (outside of the appropriations process and more akin to the Federal Reserve)

Cost to Taxpayers: The Congressional Budget Office has estimated that the bill will save taxpayers (investors who pay fees) an estimated $1.5 billion in 2002 and $8.9 billion over the 2002-2006 period. CBO further estimates that the pay parity provisions will cost $60 million in 2002 and $362 million over the 2001-2006 period.

Does the Bill Create New Federal Programs or Rules?: The bill creates a new system for establishing SEC fees and for implementing compensation for SEC employees.

Constitutional Authority: The Committee cites Article 1, Section 8, Clause 1 (general welfare), Clause 3 (interstate commerce), Clause 5 (coin and regulate the value of money), and Clause 18 (make all laws necessary and proper).

Amendments:

LaFalce, Kanjorski, Frank, Dingell, Markey, Towns and. Waters: Amendment in the nature of a substitute that only reduces transaction fees from 1/300th to 1/500th of one percent beginning on October 1, 2001 (vs. the proposed 1/667th of one percent in the base bill) for an estimated total savings of $4.8 billion over 10 years. The bill continues to use SEC fees to subsidize general revenue in Fiscal Years 2007 through 2011. The substitute also includes similar pay parity provisions.

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